

What is claimed is:

1 1. A method of matching a level of risk to an expected return for a financial
2 product, the method comprising:
3 selecting a first and a second investment option;
4 selecting a duration;
5 calculating a risk and a corresponding return on investment for each of
6 said investment options based on said duration; and
7 calculating an efficient frontier between said first and second investment
8 options, said efficient frontier defining a plurality of risks and corresponding
9 expected returns on investment for said financial product.

1 2. The method of claim 1, wherein said first investment option is a low risk
2 option.

1 3. The method of claim 1, wherein said first investment option is a borrowing
2 rate.

1 4. The method of claim 1, wherein said second investment option is a higher
2 risk option than said first investment option.

1 5. The method of claim 1, wherein said duration is a duration of said financial
2 product.

1 6. The method of claim 1, wherein said financial product is an automobile
2 loan.

1 7. The method of claim 1, wherein said corresponding return on investment
2 for each of said investment options are calculated by
3 determining an estimated lifetime net income for said investment option;

4 determining an estimated lifetime annualized net income for said
5 investment option; and
6 dividing said estimated lifetime net income by said annualized net income.

1 8. The method of claim 1, wherein said efficient frontier is calculated by
2 identifying a slope of a frontier between said first and said second investment
3 options.

1 9. A method of evaluating an application for a financial product, the method
2 comprising:

3 establishing an efficient frontier defining a plurality of expected returns on
4 investment associated with a plurality of risks of loss;
5 receiving application data defining an application for a financial product;
6 estimating a calculated risk of loss associated with said application;
7 calculating, based at least in part on said expected loss data, a calculated
8 return on investment of said application; and
9 comparing said calculated return on investment to an expected return on
10 investment associated with said calculated risk of loss.

1 10. The method of claim 9, further comprising:

2 approving said application if said calculated return on investment is
3 greater than or equal to said expected return on investment associated with said
4 calculated risk of loss.

1 11. The method of claim 9, further comprising:

2 rejecting said application if said calculated return on investment is less
3 than said expected return on investment associated with said calculated risk of
4 loss.

1 12. The method of claim 9, further comprising:

2 increasing a price of said financial product if said calculated return on
3 investment is less than said expected return on investment associated with said
4 calculated risk of loss;

5 wherein said price is selected to increase said calculated return on
6 investment.

1 13. A method of pricing a financial product, comprising:
2 establishing an efficient frontier defining a plurality of expected returns on
3 investment (ROI) associated with a plurality of risks of loss;
4 receiving application data defining an application for a financial product;
5 selecting a price for said financial product;
6 calculating, based at least in part on said application data, expected cash
7 flow data;
8 calculating, based at least on said expected cash flow data and said price,
9 a potential ROI for said application;
10 comparing said potential ROI with said expected ROI at a given risk of
11 loss; and
12 approving said application with said price if said potential ROI is within a
13 target range of said expected ROI.

1 14. The method of claim 13 wherein said application data includes at least
2 one of: applicant information; collateral information; and payment information.

1 15. The method of claim 13, further comprising:
2 repeating said selecting a price, calculating expected cash flow data, and
3
4 calculating a potential ROI if said potential ROI is not within said target
5 range.

1 16. The method of claim 13, further comprising calculating expected loss data,
2 wherein said calculating comprises:

3 executing an account level loss forecast model;
4 executing a termination event model; and
5 calculating an expected loss in response to the execution of the account
6 level loss forecast model and the execution of the termination event model.

1 17. A method for matching a level of risk to an expected return for a financial
2 product, the method comprising:

3 selecting a first investment option, wherein said first investment option is a
4 low risk option;

5 selecting a second investment option, wherein said second investment
6 option is a higher risk option than said first investment option;

7 determining an estimated lifetime net income for said first and second
8 investment options;

9 determining an estimated lifetime annualized net income for said first and
10 second investment options;

11 dividing said estimated lifetime net income by said annualized net income
12 for said first and second investment options to determine a corresponding return
13 on investment for each of said first and second investment options;

14 calculating a risk for each of said corresponding returns on investment
15 each of said investment options based on said duration; and

16 calculating an efficient frontier between said first and said second
17 investment options, said efficient frontier defining a plurality of risks and
18 corresponding returns on investment for said financial product.

1 18. A system for matching a level of risk to an expected return for a
2 financial product having a duration, the system comprising:

3 a processor;

4 a communications device, in communication with said processor; and

5 a memory unit in communication with said processor and storing a
6 program, wherein said processor is operative with said program to:

7 select a first investment option and a second investment option;

8 calculate a risk and a corresponding return on investment for each
9 of said investment options based on said duration; and
10 calculate an efficient frontier between said first and said second
11 investment options, said efficient frontier defining a plurality of risks and
12 corresponding returns on investment for said financial product.

1 19. An apparatus for matching a level of risk to an expected return for a
2 financial product having a duration, the system comprising:
3 means for selecting a first and a second investment option;
4 means for calculating a risk and a corresponding return on investment for
5 each of said investment options based on said duration; and
6 means for calculating an efficient frontier between said first and said
7 second investment options, said efficient frontier defining a plurality of risks and
8 corresponding returns on investment for said financial product.

1 20. A system for pricing a financial product, comprising:
2 a processor;
3 a communications device, in communication with said processor, receiving
4 application data defining an application for a financial product;
5 a memory unit in communication with said processor and storing a
6 program, wherein said processor is operative with said program to:
7 establish an efficient frontier defining a plurality of expected returns
8 on investment (ROI) associated with a plurality of risks of loss;
9 select a price for said financial product;
10 calculate, based at least in part on said application data, expected
11 cash flow data;
12 calculate, based at least on said expected cash flow data and said
13 price, a potential ROI for said application;
14 compare said potential ROI with said expected ROI at a given risk
15 of loss; and

- 16 approve said application with said price if said potential ROI is within a target
- 17 range of said expected ROI.

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